

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 5

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RELEASED
By sKaiser on 4-20-20
In response to 2020-002702

SUBJECT: Financial Analysis of U.S.S. Lead Refinery, Inc.

FROM: John Luksis, Financial Analyst ✓

TO: Mirtha Capiro, REB
Brett Warning, ORC

THRU: *for* Paul Dimock, Chief
IL/MI/WI Enforcement Program Section

In response to your request for financial analysis, I have evaluated the financial records of U.S.S. Lead Refinery, Inc., for the period 1991 through June 30, 1994. U.S.S. Lead Refinery, Inc., records its financial statements on a calendar year basis ending in December.

Synopsis of Case:

On November 18, 1993, a consent order was issued to U.S.S. Lead Refinery, Inc., for corrective action at its site in East Chicago, Indiana. U.S.S. Lead Refinery, Inc., is a generator of hazardous waste and also treats, stores, and disposes of hazardous waste at this facility. The current clean-up under the consent order will cost approximately \$2,000,000. I have been requested to evaluate whether U.S.S. Lead Refinery can fund additional clean-up operations in excess of \$2,000,000.

Corporate Structure:

U.S.S. Lead Refinery, Inc., is a subsidiary of the Mining Remedial Recovery Company. The Mining Remedial Recovery Company ("MRRC") is a subsidiary of Arava Natural Resources, Inc. Arava Natural Resources, Inc., is a subsidiary of Mueller Industries, Inc.

Current Status:

All manufacturing operations at the U.S.S. Lead Refinery, Inc., facility ceased in December, 1985. For the period 1989 through 1994, only remedial operations have taken place at the facility. As a result, the subject corporation has no employees on the payroll. Based on these facts, the analyst will evaluate the financial records of its parent company, Mining Remedial Recovery Company. Since future clean-up costs are expected to be substantial, I will also evaluate the financial records of Arava Natural Resources, Inc.

Tax Return History:

U.S.S. Lead Refinery, Inc., has recorded the following taxable losses from its business operations during the tax years 1990 and 1991 per federal income tax returns:

<u>tax year</u>	<u>taxable loss</u>	<u>period</u>
1990	\$426,623	12-28-89 to 12-28-90
1991	471,291	12-29-90 to 12-28-91

Tax returns for 1992 and 1993 were not provided to the analyst.

Scope of Review:

The financial analyst reviewed the following noteworthy documents:

1. Federal income tax returns for U.S.S. Lead Refinery, Inc., for tax years 1990 and 1991.
2. Unaudited financial statements for the Mining Remedial Recovery Company and Arava Natural Resources, Inc., for the period 1991 through six months ended June 25, 1994.
3. Dun and Bradstreet reports for U.S.S. Lead Refinery, Inc., the Mining Remedial Recovery Company, Arava Natural Resources, Inc., and Mueller Industries, Inc.

Results of Evaluation - "MRRC":

Line of Credit:

On July 8, 1994, Mueller Industries, Inc., agreed to extend a Line of Credit to the Mining Remedial Recovery Company not to exceed a limit of \$5,000,000. The loan is a non-revolving loan under which the Mining Remedial Recovery Company is allowed to submit requests for advances each quarter for working capital and other purposes. Mueller Industries, Inc., has the sole discretion to grant or deny each request for an advance based upon certain stated criteria. This Line of Credit expires on July 1, 2004. Based on this agreement, the Mining Remedial Recovery Company borrowed \$1,400,000 on July 15, 1994.

Cash Position:

As of six months ended June 25, 1994, the Mining Remedial Recovery Company had a cash balance of zero in its normal cash account. In its "restricted" cash account, the subject company had a balance of \$290,000. The restricted cash account can only be used for specific designated purposes.

Property:

Currently, the Midvale property is expected to be remediated by the year 2000 and is estimated to have a post-remediation value of \$8,000,000. The Mammoth Copper Mine property is under remediation and is currently being appraised. All other properties owned by the subject company are of minimal or no value.

Income Statement Results:

The income statement for the Mining Remedial Recovery Company reflected the following reported net loss amounts for the period 1991 through six months ended June 25, 1994:

<u>year</u>	<u>net loss</u>	<u>period</u>
1991	\$-1,536,520	12-29-90 to 12-28-91
1992	-3,095,000	12-29-91 to 12-26-92
1993	-1,895,733	12-27-92 to 12-25-93
1994	-1,037,131	12-26-93 to 6-25-94

Environmental Costs:

The Mining Remedial Recovery Company incurred the following environmental costs for the period 1991 through six months ended June 25, 1994:

<u>type</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
cleanup	\$444,586	\$2,046,147	\$1,270,378	\$698,913
professional	29,553	81,355	323,827	337,676
legal	<u>267,016</u>	<u>146,736</u>	<u>110,233</u>	<u>148,348</u>
	\$741,155	\$2,274,238	\$1,704,438	\$1,184,937

Litigation:

The Mining Remedial Recovery Company is involved in a insurance litigation involving the Midvale property. Although the outcome is uncertain at the present time, the proceeds could exceed \$1,700,000.

Results of Evaluation - Arava:

Long-Term Debt Position:

The financial analyst reviewed the balance sheet as of June 25, 1994, and found Arava Natural Resources, Inc., has reported long-term debt of \$23,864,000. Actual repayments of long-term debt during 1991 through six months ended June 25, 1994, were \$340,000, \$370,000, \$408,000, and \$219,000, respectively.

Cash Flow Position:

The financial analyst reviewed the statement of cash flows as of June 25, 1994, for Arava Natural Resources, Inc., and noted that the ending cash balance was \$10,914,000, an increase of \$4,321,000 compared to year ending December 25, 1993. The cash flow statement is broken down into three different activities: operating, investing, and financing. Cash flows from operating activities includes net income and various adjustments to reconcile net income to net cash provided by operating activities. Cash flows from investing activities primarily includes the purchase and sale of property, plant, and equipment. Cash flows from financing activities primarily includes the borrowings and repayment of long term debt. The cash flows from operating, investing, and financing activities for 1993 and six months ended June 25, 1994, is depicted in the following summary:

	<u>1993</u>	<u>1994</u>
beginning cash balance	\$4,086,000	\$6,593,000
cash flows from operating activities	1,769,000	2,306,000
cash flows from investing activities	1,146,000	2,234,000
cash flows from financing activities	<u>-408,000</u>	<u>-219,000</u>
ending cash balance	\$6,593,000	\$10,914,000

The summary provided above shows that Arava Natural Resources, Inc., incurred positive cash flows from operating activities during 1993 and six months ended June 25, 1994, of \$1,769,000 and \$2,306,000, respectively. The positive cash flow from investing activities experienced during 1993 and six months ended June 25, 1994, is primarily attributed to proceeds from sales of properties totaling \$1,278,000 and \$2,270,000, respectively. The negative cash flows from financing activities during 1993 and six months ended June 25, 1994, is due to repayments of long-term debt.

Income Statement Results:

The income statement for Arava Natural Resources, Inc., reflected the following reported net income or loss amounts for the period 1991 through six months ended June 25, 1994:

<u>year</u>	<u>income/-loss</u>	<u>period</u>
1991	\$-14,956,000	12-28-90 to 12-28-91
1992	5,031,000	12-26-91 to 12-26-92
1993	-1,031,000	12-25-92 to 12-25-93
1994	1,186,000	12-26-93 to 6-25-94

The net loss of \$14,956,000 recorded during 1991 was primarily attributed to unusually high selling, general, and administrative expenses. The net loss incurred in 1993 was the result of a sharp reduction in "other" income.

During the first six months of 1994, Arava Natural Resources, Inc., reported net income of \$1,186,000, resulting in a favorable improvement compared to the \$1,031,000 net loss incurred in 1993.

Intercompany Receivable:

The analyst reviewed the balance sheet as of June 25, 1994, and found that Arava Natural Resources, Inc., has an intercompany receivable totaling \$37,736,000.

Conclusion/Recommendations:

Financial Condition:

The financial condition of the Mining Remedial Recovery Company was "poor" overall as of June 25, 1994. This conclusion is based on overall net losses incurred during the period 1991 through June 25, 1994, of \$7,564,384. Expenditures for environmental related efforts, which totaled \$5,904,768 during this period, were a significant contributing factor to the unfavorable financial performance.

The financial condition of Arava Natural Resources, Inc., was "fair" overall as of June 25, 1994. This conclusion is based on positive cash flow generated from operations during 1993 and six months ended June 25, 1994, of \$1,769,000 and \$2,306,000, respectively. In addition, this corporation had a favorable cash balance of \$10,914,00 as of June 25, 1994. These positive factors were partially offset by outstanding long-term debt of \$23,864,000 as of June 25, 1994.

Clean-up Costs:

Based on the results of my evaluation, I advise that the Mining Remedial Recovery Company has the ability to pay \$8,000,000 toward clean-up operations. My recommendation is based on the sale of the Midvale property (after remediation) as a source of future cash funds. However, since the property will not be ready to sell until the year 2000, I advise that Mueller Industries, Inc., provide a \$8,000,000 loan to the Mining Remedial Recovery Company in the interim to fund current clean-up operations. The basis for my recommendation focuses on the following positive financial factors discussed below.

The financial condition of both parent companies is a positive factor. As previously discussed, the financial condition of Arava Natural Resources, Inc., is rated "fair". Although I was not provided any financial records with regards to Mueller Industries, Inc., the Dun and Bradstreet report rated its financial condition as "strong" and noted that net income for 1992 and 1993 amounted to \$16,666,000 and \$21,136,000, respectively. In addition, the Dun and Bradstreet report noted that Mueller Industries, Inc., had

an ending cash balance of \$66,952,000 as of September 25, 1993.

Another positive factor is the fact that Mueller Industries, Inc., recently gave a line of credit of \$5,000,000 to the Mining Remedial Recovery Company. This line of credit is long-term in nature since it is available through July 1, 2004. Based on the magnitude and duration of this line of credit, the parent company has demonstrated that it will provide full financial support to the subject subsidiary, if necessary.

I further advise that the Mining Remedial Recovery Company make a single payment of \$8,000,000 for clean-up costs rather than negotiate a payment schedule over several years. My recommendation is based on the substantial cash balance of \$66,952,000 that was recorded on the books of Mueller Industries, Inc., as of September 25, 1993.

The payment of \$8,000,000 toward clean-up operations is not expected to have an adverse impact upon the financial future of the Mining Remedial Recovery Company, Arava Natural Resources, Inc., or Mueller Industries, Inc.

Finally, the current status of both the insurance litigation involving the Midvale property and the ongoing appraisal of the Mammoth Copper Mine property should be discussed during negotiations since they represent potential sources of additional cash funds.

General Comments:

I am available to participate in the settlement negotiations if financial support is helpful. Also, I am available to testify as an expert witness with regards to the area of financial analysis upon your request. If you have any questions with regards to my findings and recommendations, please call me at extension 6-4077.